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Interstate Effort Loses Key Foe In New England

By MICHAEL WEINSTEIN

NEW YORK — Nationwide banking moved forward in New England on Wednesday, as a major bank in the region dropped its long-standing opposition to full interstate banking.

Bank of New England Corp., which has major operations in Massachusetts and Connecticut, said it would no longer oppose nationwide banking in those states – thus creating a more unified front in support of dismantling the New England regional compact.

Shawmut National Corp., one of Bank of New England's principal competitors, earlier endorsed nationwide banking, and the battle over interstate banking in Connecticut has been characterized as a tug of war between the chairmen of the Bank of New England and Shawmut, Walter J. Connolly Jr. and Joel B. Alvord.

Bank of Boston Corp., the largest banking company in Massachusetts, has said it supports nationwide banking on the condition that bank taxes are lowered.

The decision came as the Massachusetts General Assembly is considering a nationwide banking bill. The Senate Ways and Means Committee on Wednesday passed a bill that would open the state to acquisition by banks from around the country, beginning Jan. 1, 1991. The bill still faces deliberations before the full Senate and the House.

Massachusetts now allows interstate banking among the six New England states. In the past, similar bills have stalled in the state legislature.

Connecticut, too, only allows interstate banking among the six New England states. Since several major banking companies have operations in both

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Fed Data Confirm Real Estate Glut Across the Nation

By ROBERT TRIGAUX

WASHINGTON — The Federal Reserve's latest survey of the economy provided fresh signals of real estate overcapacity and uncovered a new caution among bank lenders.

The report, called the "beige book," found that the pace of economic growth is slow to moderate in most Fed districts. It cited particular concern about high vacancy rates in some commercial real estate markets and found some tightening of credit standards.

In Atlanta and throughout the Southeast, the Fed said, real estate and auto loans remain weak. "Loan quality seems to be improving as banks establish tighter loan standards, particularly for real estate development," the survey found.

The report summarizes regional economic activity data obtained prior to Oct. 20. The beige book is prepared eight times a year for use at the Federal Open Market Committee, the Fed's monetary policymaking group, which meets next on Nov. 14. Fed watchers expect the Fed to gradually ease interest rates in light of the slower economic growth.

"There's no doubt that commercial real estate will still be soft in 1990," said Joseph A. Wahed, senior vice president and chief economist for Wells Fargo Bank, San Francisco – a major real estate lender. "Vacancy rates are still high – between 15% and 25% – and are especially high in suburbs."

Oil patch and Rocky Mountain regions, the Southwest, and a few pockets in the rest of the country have the most depressed commercial markets, he said in an interview.

"Next year, there is some new capacity coming on line and that is a problem

See FED: Page 13 ▸

Bankers Making Deeper Cuts To Boost Sluggish Profits

By JEANNE DUGAN COOPER

NEW YORK — Bankers are cutting operating budgets for 1990 deeper than in any other year this decade, according to an informal *American Banker* survey of industry leaders.

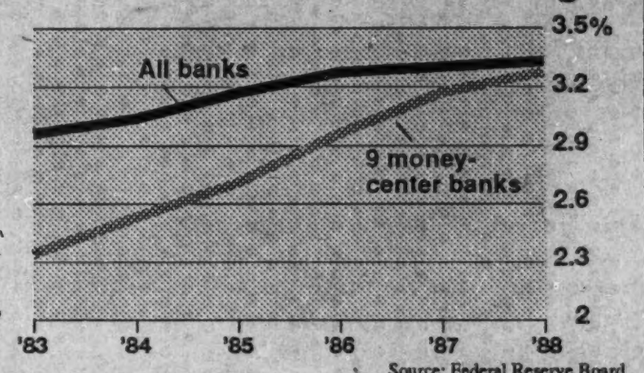
Frustrated that profits and cost ratios have not improved more dramatically, bankers are clearly not stopping with the hundreds of branch closings and thousands of job cuts completed to date. They are more than eager to lop off any costs that are in any way not essential to their business goals.

Although many departmental budgets have already been whittled down, it seems a certainty that more jobs will be eliminated, more corporate real estate sold, data processing centers consolidated, and strategies refocused.

See BUDGETS: Page 6 ▸

Money-Center Banks Lose Their Cost Advantage

Money-center banks have lost their cost advantage over the industry as a whole. In 1983, big banks enjoyed a 62-basis-point advantage in noninterest operating expense as a percentage of average assets. But increased costs at money-centers, combined with stabilized costs for the industry, reduced the spread to just 6 basis points in 1988.



Source: Federal Reserve Board

Cost Controls Elude Money-Centers

By MICHAEL WEINSTEIN

NEW YORK — Bucking the banking industry's cost-cutting trend, money-center banks sharply increased their noninterest expenses in the third quarter.

Analysts attributed the increase to several factors, including one-time charges at some banks and strategic decisions by others to take advantage of an already abysmal earnings quarter to include expected future expenses.

Many of the banks reported heavy losses, largely the result of building reserves against Third World loans. Analysts said banks can "front load" a range of future costs, such as legal and advertising costs and employee bonuses.

As the banks were already reporting big losses, higher operating expenses in the third quarter were less likely to stand out. By including future costs in

See NONINTEREST: Page 14 ▸

Today

Ginnie Mae is installing a software program to monitor the status of issuers and their loans. 3

Fannie Mae and Goldman Sachs have set up investment funds in Japan to spur interest in mortgage-backed notes. 3

Cardholders would forgo perks for lower rates, according to the *American Banker* consumer survey. 2

Congress appears ready to step up efforts to wage war on drugs through the nation's financial institutions. 2

A former branch manager of First Fidelity Bank admitted helping launder more than $6.5 million. 2

Texas Commerce Bancshares is selling its credit card merchant business. 2

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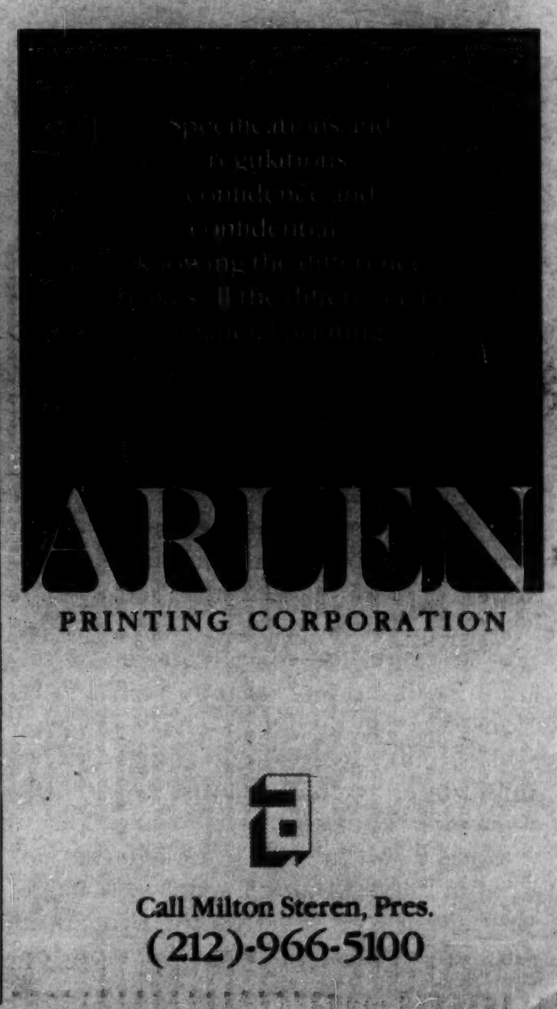

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Check Cashers May Get Rules On Laundering

By ROBERT M. GARSSON

WASHINGTON — Seeking to curb money laundering, Senate Banking Committee Chairman Donald W. Riegle said Wednesday he was considering legislation to regulate companies in the business of cashing checks and wiring funds.

Mr. Riegle, a Michigan Democrat, does not appear to have settled on a legislative strategy and he did not say whether a bill would include requirements to report transactions between such facilities and banks. He did say that licensing requirements would likely be a central focus of his bill.

"This is an emergency," Mr. Riegle said, suggesting that he plans to move quickly.

Meanwhile, Sen. John Kerry, D-Mass., who chaired Wednesday's Senate Banking subcommittee hearing on money laundering, said computer technology should help authorities monitor wire transfers more effectively.

Mr. Kerry also expressed frustration that the Treasury Department has not moved more quickly to monitor money flows through the nation's wire transfer systems, including the New York Clearing House's Chips.

"If in this age of information processing, we don't have the ability to demand a system of accountability, where on a daily basis we can know what is coming in, and can cross-check to see where patterns are developing, something is wrong," Mr. Kerry said.

Transactions Initiated Abroad

Mr. Kerry also said that new Treasury Department proposals to monitor wire transfers were deficient. "A gaping loophole in Treasury's proposal is that foreign banks have the capacity to get around the system," he said.

John F. Lee, president of the New York Clearing House, said his organization is at work on a format that would require wires to include information about the purpose of a payment.

But he said, "We have little capability to investigate or determine whether or not originators of payments truthfully supply such information."

Mr. Lee also told the panel that efforts to deny drug traffickers access to the system here could lead to the development of such systems abroad.

In stark contrast to the tone of similar hearings in past years, the banking industry was applauded for its compliance with cash reporting rules.

"As of 1989, we have virtually eliminated money laundering from the teller line," said Gerald D. Lewis, Florida's comptroller.

Mr. Lewis and a fellow state regulator, Timothy D. Mahoney, director of the New York Banking Department's special investigations division, told the panel that banks were not overly burdened by reporting requirements mandated in money-laundering laws.

But L. Don Sargent, president of American Commerce National Bank in Anaheim, Calif., said the rules represent "a crushing burden."

"Each form requires 18 to 26 minutes to complete for purposes of complying with Bank Secrecy Act regulations," he said. "This means that even small banks can spend hundreds of man-hours each year just to comply with one regulation."

Boris F. Melnikoff, senior vice president at First Atlanta Corp., said banks should receive rewards for tips about launderers that lead to fines or forfeitures. ■

Cardholders Would Forgo Perks for Lower Rates

By DONALD SHOULTZ
Seventh of a Series

Although a majority of American consumers recognize that their bank credit cards offer special benefits such as travel services and group insurance, most cardholders told the *American Banker* annual consumer survey that they have not made use of the enhancements.

The survey found that Americans value the extra benefits, which many banks have introduced in recent years to make their credit cards more appealing. But consumers would gladly forgo the frills in return for lower interest rates or annual fees.

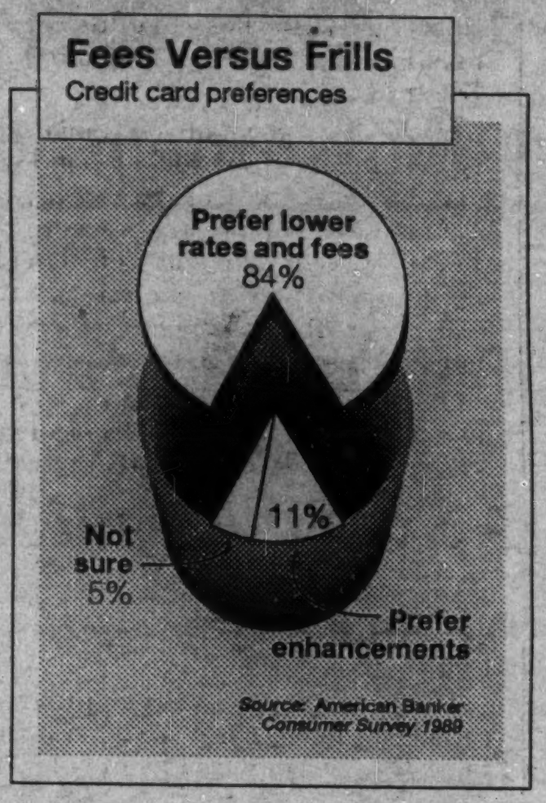
Many cardholders said they would opt for a card with enhancements if the rates and fees stayed the same. However, a whopping 84% of those who have an enhanced bank card with higher rates or fees said they would prefer a card with no benefits and a lower interest rate or annual fee.

Only 11% found a card with enhancements more attractive than one that costs less.

The sixth annual survey involved extensive telephone interviews with a representative sample of 1,009 adults throughout the continental United States. The survey was administered in March and April by Trans Data Corp., a Wayne, Pa., research affiliate of the *American Banker*. A complete report and analysis of the findings has been published in a magazine and is being mailed to *American Banker* subscribers.

Bank card marketers and consultants are divided on how to interpret the findings on card enhancements.

"It's a truism in consumer research that when one asks, 'Is my price too high?' the answer is invariably yes," said Donald J. Auriemma, president of Auriemma Consulting Group in Garden City, N.Y. "The price is always too high."



Bankers say that the behavior of consumers may not conform to their stated opinions or attitudes. In the real world, price is not isolated and is only one factor in the decision to sign up for a credit card.

Others were not so quick to discount the questions that the survey raises about the effectiveness of credit card fringe benefits. They said the result might indicate a growing price sensitivity that card marketers should heed.

"I don't think it's a knee-jerk reaction," said Stephen Szekely, vice president of Payment Systems Inc., a research firm in Tampa, Fla. "I think it's probably a pretty accurate assessment of the way consumers feel and behave."

Mr. Szekely's research shows that a majority of consumers say they pick one card over another because of either rate or fee.

Credit card enhancements were introduced by card marketers to differentiate their maturing products in a crowded marketplace. But now the enhancements have become nearly universal, to the point where they have taken on the sameness of the cards they were supposed to differentiate.

"I wonder if we're really looking at something that's kind of waterlogged at this point," said Michael P. Sullivan, a bank marketing consultant based in Charlotte, N.C.

Of all the consumers polled for the 1989 *American Banker* consumer survey, 68% said they have a Visa card, a MasterCard, or both. Of that group, 68% said they have a bank card with enhancements.

Bankers and consultants are quick to point out that this result gauges consumer awareness, not market penetration. Since virtually all banks offer a package of enhancements, some consumers may no longer be paying attention.

When survey respondents were quizzed further on what benefits they had, the most frequently mentioned were card registration services, travel services, discounted life insurance, rebates on purchases, and frequent-flier points.

Like most frills added to core products, card enhancements seem to be wasted on the majority of cardholders. Most were not aware of the enhancements, did not value them, or did not use them.

When consumers who have enhanced cards were asked if they value the benefits, 41% said yes. Nearly two-thirds, or 64%, said they have not used any of the benefits available.

Among cardholders who have taken advantage of the enhancements, travel

See CARDS Page 6 ►

Texas Commerce to Sell Card Processing Business

By YVETTE D. KANTROW

NEW YORK — Texas Commerce Bancshares Inc. is selling its credit card merchant business to National Data Corp., an Atlanta-based data processing company that has made several similar deals in recent months.

The price was not disclosed.

The Houston-based bank, a subsidiary of Chemical Banking Corp., joins a growing list of financial institutions that have decided to stop processing credit card transactions for retailers. It currently handles $500 million worth of credit card sales a year for 9,000 merchants.

Texas Commerce's New York affiliate, Chemical Bank, handed off its merchant processing to National Data in 1988.

National Data handles $6 billion in credit card payments a year and is the fifth-largest merchant processor in the country, according to a recent ranking by *The Nilson Report*, a newsletter published in Los Angeles. Texas Commerce said its deal with National Data represents a partnership rather than a decision to exit the merchant business. The bank will continue to accept merchant deposits.

National Data said in September that it signed agreements in principle to acquire five banks' merchant processing operations by yearend. Texas Commerce is the third to be disclosed, following Bank of New England, Boston, and First National Bank of Maryland, Baltimore. More announcements are expected soon and will likely involve one in the Rocky Mountain region and one in the Southeast. ■

Former First Fidelity Branch Manager Pleads Guilty in Laundering Case

By REBECCA COX

NEW YORK — A former branch manager of First Fidelity Bank, Newark, N.J., has admitted helping launder between $6.5 million and $11 million over a four-year period that ended in June 1985.

The former branch manager, Roberto Calleja, pleaded guilty Wednesday to violating federal currency and income tax laws, according to Samuel A. Alito Jr., U.S. attorney in Newark.

Money launderers and other criminals seek out branch managers in preference to tellers and other lower-level employees because managers can more easily conceal suspicious bank transactions, law enforcement experts said.

Mr. Calleja told Judge Harold A. Ackerman at the hearing in federal court in Newark that he laundered $40,000 to $70,000 a week during a 41-month period. The investigation into the case is continuing, according to Justice Department spokesman Dick Lavinthal in Newark.

The funds were given to him in small denominations by a man Mr. Calleja knew as Jose Fernandez. He exchanged the small bills for larger-valued notes without completing currency-transaction reports. The reports are required by law to be filed for each cash transaction over $10,000. Mr. Lavinthal would not comment on the source of the funds.

Mr. Calleja also admitted he helped a bank customer, Eugenio Gonzalez, engage in a tax-evasion scheme that disguised Mr. Gonzalez's ownership of certificates of deposit and money-market accounts at the bank. Mr. Lavinthal would not comment on whether Mr. Gonzalez has been charged with tax-evasion or other crimes. ■

Corrections

An Oct. 30 table ("Earnings at Top Southeast Banks," page 2) incorrectly stated the third-quarter 1988 earnings of Citizens and Southern Corp., Atlanta. The bank earned $53.3 million in last year's third quarter. The company's earnings in the third quarter of 1989 rose 15.2% from the third quarter of 1988.

□

Western Bank, Los Angeles, was the 20th-largest commercial bank in mortgage servicing for investors at midyear, with a portfolio totaling $592.2 million. The bank was omitted from an Oct. 24 listing ("Top Banks in Mortgage Servicing," page 8).

□

General Motors Co. is expected within weeks to ask Banca Nazional del Lavoro to make the first payment on a letter of credit totaling $150 million. The company was misidentified in an Oct. 31 headline (page 10). ■

COMMENT

Fitting Talent to Thrift Industry Needs

By DAVID de WILDE
Chief Executive Officer
Chartwell Partners, San Francisco

THERE is no question that capital – at least $166 billion, by Bush administration estimates – will be needed to resuscitate the thrift industry. But capital alone won't assure success. To compete with other providers of financial services in the current overcrowded marketplace, new thrift owners must also meet a second critical need: executive talent.

Lack of quality management was one of the primary causes of the industry's distress in the first place. Many executives, accustomed to stability and security, were unprepared for the rigors of volatile interest rates, rapid technological change, and deregulation. And today, the depth of the resulting problems make it increasingly difficult to recruit the management needed to turn the industry around.

Although industry consolidation is creating a surfeit of candidates seeking top management positions, owners are finding that few are qualified to lead their institutions into a profitable future. For many institutions, the leadership search takes on added urgency because it is closely linked to the search for a new strategy. The margin for error is extremely small.

The already crowded market for financial services promises to get even more competitive as regulatory barriers fall and distinctions among depositories blur. While there is no absolute formula to ensure success, there are three critical steps that will give thrift owners a good head start.

'Although industry consolidation is creating a surfeit of candidates seeking top management positions, owners are finding that few are qualified to lead their institutions into a profitable future.'

— David de Wilde
Chief Executive Officer
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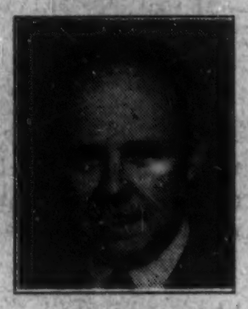


Recruit According to Strategy

First, focus on fit. Determine your vision for the future. Then recruit leaders who share that vision and the experts who can deliver it.

For example, when the Robert M. Bass Group took control of American Savings bank in California last year, it was determined to build a thrift with a tightly focused strategy of building retail deposits and offering adjustable-rate single family home loans. For chief executive officer, they aggressively recruited Mario Antoci, a 20-year thrift industry veteran with a highly successful track record based on this "stick to the knitting" approach.

But not all owners will adopt the same strategies. Some will seek to originate consumer assets for sale into the secondary markets, while others will strive for asset diversification by moving into consumer and commercial lending – fields that demand credit and management skills more akin to traditional commercial banking. To the extent that the regulators permit, others will emphasize real estate investment.

The strategy should dictate the choice of management. That means the search should extend beyond the industry's current borders – to commercial banks, investment banks, mortgage banks, and elsewhere – wherever the expertise lies.

Wherever they come from, tomorrow's experts must be prepared to address changing industry needs. Ability to manage interest rate risk, for example, is of resurgent concern to regulators. This concern is not new. Several years ago, the strongest candidates for asset-liability managers came from investment banking firms, federal financial agencies, and commercial banks.

See COMMENT: Next Page ➤

The Lobbyists

By Barbara A. Rehm

Lender Liability For Toxic Waste Galvanizes Groups

Forget credit unions and expanded powers, the Arizona and California banking trade groups are focusing their lobbying power on changing laws that hold lenders liable for toxic waste found on foreclosed properties.

"Toxic waste is our main legislative thrust," says **Gordon Murphy**, executive vice president and lobbyist for the **Arizona Bankers Association.** While not truly ditching the quest for parity with credit unions or expanded powers, both groups are leaving the bulk of that lobbying to their Washington reps.

California Bankers Association lobbyist **Gregory O. Wilhelm** said member banks are worried that when they end up owning a property through foreclosure, they are responsible for the property's toxic waste problems. Under current law, the bank cannot go after the former owners.

"All a lender can do is walk away from the whole thing," says Mr. Wilhelm.

The California group has published a white paper promoting reform of the laws governing toxic waste cleanup and has enlisted the help of state Sen. Art Torres. Mr. Wilhelm is hoping a new law can be enacted to allow lenders to sue the borrower or at least escape full liability if a property loan was made in good faith.

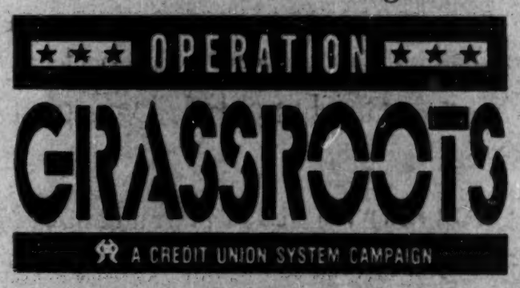
Mr. Wilhelm joined the group about a month ago, replacing **Larry Kurmel** who moved up to become executive director. Mr. Wilhelm formerly was a **Wells Fargo Bank** lobbyist.

— **Teresa Carson**

Credit Union Group Goes State to State with Pep Rally

About 300 credit union executives gathered in Los Angeles on Monday for the kickoff of Operation Grassroots, a nationwide effort by the **Credit Union National Association** to get members pumped up so they can defend their industry.

The **American Bankers Association** has vowed to convince Congress that



credit unions should be subject to the same rules and taxation as banks. But the banks have been overwhelmed by credit union lobbying in the past, and they may be buried again if Operation Grassroots works.

CUNA is being helped in host cities by state credit union trade groups.

Doug Duerr, a lobbyist for the **California Credit Union League**, says Operation Grassroots was a huge success in Los Angeles.

"It really helped to put our people on notice that there is a struggle and that in the coming months there is going to have to be a defined program that every person is going to have to play a role in," he says. "The program ran 45 minutes over, and the audience stayed. Nobody got up and left."

Wende C. Arnold, a vice president at the **Colorado Credit Union League**, reports that Operation Grassroots' second stop in Denver attracted about 100 people on Tuesday.

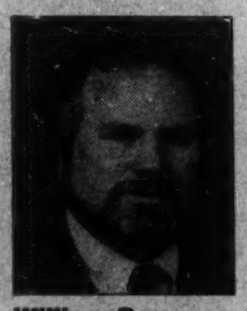
"People responded well," she says. "I could tell from the talk afterwards. People were saying, 'This sounds great, let's get involved.' "

The CUNA lobbyists hit Dallas on Wednesday and are in Chicago today. They will be in Atlanta on Nov. 8, Philadelphia Nov. 9, and Springfield, Mass., Nov. 10.

FDIC Research on Insurance Gives Ammo to Credit Unions

The **Federal Deposit Insurance Corp.** recently handed the credit union industry some dusty but powerful ammunition for its fight to repel attacks from bankers.

The FDIC research staff presented its 1988 credit union study to the agency's top lobbyist, **Beth L. Climo**, in September. But it leaked out and ended up making a great lobbying tool for the credit union industry. The FDIC report is generally a ringing endorsement of the credit union concept, particularly praising credit unions' customer service record. In addition, dissemination of the FDIC study torpedoed a separate study of credit unions done for the **American Bankers Association**, which the group had hoped would help lobbyists convince lawmakers that credit unions should adhere to the same laws and regulations as banks do.



William Donovan

The **National Association of Federal Credit Unions** is capitalizing on the situation. Association lobbyist **William J. Donovan** notes that the group excerpted the FDIC study in recent congressional testimony before a House Banking subcommittee. The group also put out a press release highlighting the FDIC's conclusions. ■

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